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Forgan, James Berwick

Currency reform

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CURRENCY REFORM

AN ADDRESS DELIVERED BY

MR. JAMES B. FORGAN,

President,

FIRST NATIONAL BANK OF CHICAGO,

AT THE

189TH MEETING

OF THE

ST. LOUIS COMMERCIAL CLUB,

JANUARY 26th, 1907.

CURRENCY REFORM.

The panic of 1893 was directly attributable to our crude and unscientific banking system, our defective and equally unscientific currency system and our erroneous Government Treasury and Sub-Treasury system. If these three systems so closely allied were each adapted and adjusted to the needs of commerce as they should be, their effect would be the development of our finances on a sound basis and the establishment of a steady and reasonable money market. Their influence would be to prevent rather than to cause the oscillations which now take place between easy and tight money, speculation and stagnation, inflation and depression.

Since 1893 financial conditions have on several occasions been severely strained, but with a succession of good crops, unbounded prosperity, enormous development of natural resources and rapidly accumulating wealth, public confidence has been sustained and panic averted.

Our Treasury System undertakes to supply commerce with its circulating medium, which having no connection with commercial transactions other than the collection and disbursement of government revenues, it cannot satisfactorily do. Even in the collection of these revenues, by hoarding them in its sub-treasuries, it unnecessarily and very erroneously interferes with the natural current of the circulating medium. This interference is always the greatest when business is most active and currency most needed.

Our currency system forms no part of our banking system which is one of its greatest defects. And our banking system has only an indirect connection with the issuing of our circu-

lating medium, which is one of its weaknesses. Banking and the issue of circulation are bound together in their very nature by the functions they perform in commerce, whose instrumentalities they are.

That these financial disturbances which periodically threaten if they do not produce panic, could be prevented by reforming our banking, currency and government treasury systems, is now generally admitted and cannot be controverted.

After the panic of 1893 when the defects in our methods became evident, public attention was for some time directed to the need of reform in our banking as well as in our currency and Treasury systems. No headway along the line of the former was made, however, and by common consent it seems to have been dropped. Public attention has, however, been persistently called to the need of currency and government treasury reform for which probably the greater necessity exists. Careful students of existing conditions and men of practical experience have advocated such reform in Congress, in Bankers' Conventions, on the public platform and through the press. Good results along the line of education are becoming evident in what may now be observed as a popular demand that something should be done. The object desired in the proposed reform is to devise some means of avoiding or preventing the recurrence of these periodical disturbances in our banking and financial affairs, which have such a baneful influence on trade and commerce.

In the political arena too much consideration is given to the so-called "demand of the people," and too little to what they need or what would be best for them. It is in this, as in most other fields. The quack's nostrum is more popular than the trained and experienced doctor's prescription until the trouble becomes acute, then science and experience are called in and applied. Popular study of the question is naturally superficial and education in connection with it is of slow growth. But along this line it must finally be settled, the people must understand for themselves the necessity for reform by hard knocks in the shape of retarded progress and heavy losses, if they will not learn it otherwise. But we are learning. Our currency system is no longer referred to as a model of perfection.

Its one good quality is still boastfully referred to, to-wit; its strength, and this is undeniable. Our government being directly responsible for it all, makes every dollar of it good as long as the government stands, which means forever. Loss to the holder of it is inconceivable. That it does not satisfactorily perform every purpose of a desirable circulating medium is, however, now freely admitted. Public discussion of the question now assumes this to be true, and turns its attention to recommending remedial legislation. There are more suggestions now before the public than Mark Twain received for his cold, and most of them will prove equally inefficacious. They are based on an inedequate grasp, and a lack of knowledge and experience of the subject, the importance of which cannot be exaggerated. It is far-reaching and comprehensive, and neither the closest student nor the men of widest experience will undertake to settle it off-hand. The combined wisdom of both theory and practice will be required to suggest even a safe experiment along the line of reform. We cannot now start at the beginning and evolve a perfect currency system, however much we might desire to have one. No one with any comprehension of existing conditions will suggest anything of this kind. Reform must be evolved out of and with due regard to existing conditions. Satisfactory reform cannot be brought about without a clear understanding of the necessity for it. We must have well defined ideas of the defects before undertaking to suggest remedies. Let me then draw your attention to some defects of our present currency system.

I have already indicated a vital defect in that the supplying of the circulating medium of commerce has been divorced from the banking business where it naturally belongs. "What about our national bank notes?" some one will say Bank notes under our system are only nominally so. They are based on the obligations of the government, which issues them to the banks, and undertakes to redeem them. In addition to exchanging them with the banks for its own bonds at par the government holds five per cent. in money, supplied by the banks for redeeming them. In practice, therefore, they are only

nominally regarded as bank obligations. The banks have even been relieved by law from keeping cash reserves against them, which are required on all their other obligations. They are simply a form of currency supplied by the government, the same as the greenbacks, the treasury notes, and the silver certificates; at all events, they have come to be so regarded and are so dealt with. For every thousand dollars of them each bank takes out, it curtails its loaning capacity to the public by $95.00, because that amount is tied up in the premium paid on the bonds, and the five per cent. guarantee fund deposited with the government. As the total taken out by the banks is $596,000,000, the aggregate impairment of their loaning capacity is over $56,000,000. The National Banking Act simply permanently encumbers the banking business of the country with the obligation of providing and maintaining a market for government bonds. For these reasons, I claim that the issuing of what is technically known as bank currency forms no part of our present banking system. I will discuss the inelasticity of these so-called national bank notes later, along with the same defect in the other government issues, but in the mean time let me draw your attention to another incongruity in connection with them. The lower the current rate of discount on loans the greater the profit in taking them out, and vice versa, the higher the discount rate, the smaller the profit on them to the banks. There is therefore the least inducement to take them out, when the public demand for them is the greatest, that is, when money or credit is scarce and interest rates rule high; and the greatest inducement to take them out, when money is easy and rates low. Does not this tend to inflation? It is at all events another evidence of their inability to respond naturally to the requirements of commerce, as bank notes should.

So much for our bank notes. Now let us look at our "hodge podge" currency as a whole. I would like to draw your attention to the per capita features of it. It is generally represented that the per capita amount of the circulating medium in the United States is now excessive and high as compared with other nations. Let us compare it with Canada, the country whose conditions and circumstances most nearly resemble our own. This cannot,

of course, be done with accuracy. Canada has no gold coins of its own, and has for years made our gold its standard of value. So far as our gold is concerned, therefore, we should add the population of Canada to our own in figuring the amount of it per capita.

Speaking roundly in millions, we have in bullion, or have issued in coined gold in this country		$1,587,000,000
Of this the Government holds in store against its gold certificates issued	$639,000,000	
And there is a balance in the Treasury of	255,000,000	894,000,000
So that there is outstanding American gold coin for		$693,000,000
Of this amount the banks hold		230,000,000
And there remains outstanding somewhere		$463,000,000

But where? This full amount is being erroneously included in our per capita calculations. It is well known that some of it has been melted for use in the arts and sciences. I have already stated that it is the basic coin for both bank and government note issues in Canada, and is carried by both the government and the banks there in their cash reserves, the same as it is with us. Then our gold is held in large quantities in London, Berlin and Paris. Only recently we imported over $40,000,000 of it within two or three weeks. In 1904 we exported $96,000,000 more than we imported. In 1905 we imported $22,000,000 more than we exported, and in 1906 we imported $125,000,000 more than we exported. It is, therefore, impossible to say where it all is. We know that there is no such amount of it as $463,000,000 afloat in this country outside of the government treasury and the banks, for except on the Pacific Coast, it is very little in circulation at all. It is doubtful if one-fourth of that amount is circulating among our own people, and should be reckoned in our per capita circulations. With this explanation as to our stock of gold, I make the following computa-

tions of the per capita circulation of the different kinds of circulating medium in the United States and Canada:

	Per Capita. In U. S.	In Canada.
Cold Coin	$ 1.50	$ 1.25
Gold Certificates	3.71	nil.
Standard Silver Dollars	.73	nil.
Subsidiary Coins	1.23	1.00
Silver Certificates	4.81	nil.
Treasury Notes	.08	nil.
U. S. or Canadian Government Notes	.26	2.00
Bank Notes	6.10	13.88
Total Per Capita in the hands of the People	$18.42	$18.13
Add to this the amount of specie and government issues held by the banks	$10.57	$ 9.13
Total Supply Per Capita	$28.99	$27.26

This shows a very slight variation of the per capita amount in the hands of the people, $18.42 against $18.13, only 29 cents a head in favor of the United States. The difference in the amounts held by the banks in each country, $1.44 per capita of the population, is no doubt accounted for by the legal enforcement in this country of certain percentages of bank legal reserves, but outside of that, our system of individual banks naturally requires the use of larger reserves than does the branch banking system of Canada. You will observe that out of $18.13 per capita of circulating medium afloat in Canada, $13.88, or 75 percent. of it is in bank credit notes. This is interesting to us in this country, where we have absolutely nothing in our currency system to correspond with it. It becomes more interesting when we consider that this bank currency in response to the seasonal fluctuating demands of commerce for it, fluctuates in its volume during the year as it did in 1895 to the extent of $3.29 per capita and ours does not fluctuate at all. In January, 1905, it fell to $9.82 per capita and in September it rose to $13.11. In 1906 it fell in January to $10.34 and in October rose to $14.88, a fluctuation of $4.54 per capita. This brings out clearly the great defect in our currency, which in its volume of issue makes no response whatever to the variations in the demands for it. Commerce really suffers more in

the long run from the periods of over abundance of our present circulation than from those of scarcity. The origin of each recurring period of tight money can be traced to preceding periods of easy money. Whenever money becomes so overabundant that bankers, in order to keep it earning something, have to force it out at abnormally low rates of interest, the foundations are laid for a period of stringency in the not far distant future, for then speculation is encouraged, prices are inflated, and all sorts of securities are floated until the market becomes glutted with them. To add to our present circulation more of the same kind until the supply shall equal the maximum requirements of commerce in the Fall, without providing means for its contraction when these requirements are at their minimum in the Spring, would only enhance the evils of our present system. What we need is more elasticity in our currency. Permit me to repeat an explanation I have frequently made in regard to what elasticity means, for from the discussion of the subject in some quarters, I have found that an erroneous idea of its meaning exists. In discussing the currency question the word "Elasticity" is frequently taken to be synonymous with "Expansion" or the power to expand. This is precisely the reverse of its meaning. Elasticity in the currency, as in everything else, means contraction. To illustrate: If I take a piece of putty in my hands and pull it out, it will expand to the limit of its capacity, and when released will remain expanded. Putty is not elastic. If, however, I take a rubber band in a similar way and expand it, when I let go it will contract. It is elastic. Elasticity is that quality in anything which enables it to contract when outside pressure on it has been removed. This is precisely what elasticity in the currency is. It is the contraction in the amount of it which takes place when the demands of commerce for it decreases. These demands increase and diminish, are strong and weak, in accordance with the natural and seasonable fluctuation of business. The lack of elasticity in our currency is, that when once issued, it remains expanded like the putty, and does not of its own accord, as the Canadian bank note currency does, contract like the rubber band. The volume of it is no less when thedemands of commerce are at their lowest, than it is when they are at their highest, and vice versa. It is,

therefore, not expansion of our currency that is needed, but the adjustment of it to the fluctuating demands of commerce, with an adequate power to contract as these demands diminish, so that we shall at no time have either a redundancy or a scarcity of it. There has been only one way suggested by which it seems to me this may be accomplished. Give the banks the right under proper restrictions and regulations as to their safety, to supply their own circulating notes in volume sufficient to meet the regular seasonal maximum demand for them, and at the same time establish a system and enforce the practice of daily redeeming all bank notes not actually kept in circulation by the requirements of commerce. Banks issuing credit currency, such as the Scotch and Canadian Banks, when they redeem their notes, cancel them, so far as their existence as any part of the money of the country is concerned, but do not destroy them. They disappear from their books and statements as a liability, but are laid aside for the purpose of being reissued when opportunity occurs. Under our system, the currency which each bank receives from the Comptroller immediately becomes a part of the fixed circulating medium of the country, and is erroneously counted along with the other government issues as so much money. The banks that nominally issue it have a right to so count it, for they paid actual money for it when they bought the government bonds to secure it; hence, our national bank notes, instead of being dealt with as mere promises to pay money, are handled the same as gold or government notes, and no active redemption of them takes place or is deemed necessary. They are even sometimes counted as part of bank cash reserves (State banks and trust companies regularly so count them), which only illustrates how far we can stray from correct principles.

If, when commerce did not need them, instead of being held by the banks and wrongfully counted as reserve money, they were redeemed, and the volume of them thus reduced to the measure of actual commercial demand for them (in other words, were they elastic), the inflation for which they become directly responsible when there is no need for them in their maximum volume, would be prevented, and the banks could bring them into use again when their use is required for legitimate commercial purposes. In this manner their elasticity (that is, their power to contract), would prevent inflation by preventing redundancy; and their power to expand again, after contraction, would prevent their scarcity when wanted. Credit currency floats in the chanels of commerce on exactly the same basis as checks, bank drafts, and other similar obligations and is daily presented along with those through the Clearing House for redemption. The competition among the banks to put out their own notes for the profit in the transaction, is the prime factor in effecting this daily redemption which alone gives them elasticity. Whatever amount of its own notes each bank has on hand unissued, counts for nothing, and they only count as a part of the circulating medium of the country when they are again paid out. During the season when the requirements of commerce are light, each bank has on hand a supply of its own circulating notes, counting for nothing, as stated, but in reality an additional reserve strength against the demands of the next active season. The system practically gives to the banks the right to furnish circulation just when it is wanted, and promptly retires it as soon as it is no longer needed.

In overcoming these defects in our present currency system we are met with the following difficulties due to existing conditions:

First.—The difficulty of adding to our national banking system, with its more than six thousand individual banks, a bank credit currency, which is the only kind that automatically adjusts itself in volume to demand and supply.

Second.—The difficulty of having two banking systems, National and State, about equal in importance, concurrently doing business in the country; and the impossibility of regulating both systems by the same law, so that the use of credit currency as part of bank cash reserves might be universally prevented.

Third.—The difficulty of providing adequate redemption facilities for so many banks that will effect the daily withdrawal from circulation in every part of the country, of every bank note not in use by the people. Unless this can be accomplished the proposed new currency will prove ineffective of beneficial results and cause more harm than good.

Fourth.—The difficulty of adding another to our already too numerous kinds of paper currency.

Fifth.—The difficulty of having $525,000,000 of our present currency based on government bonds, with a corresponding amount of such bonds among the assets of the banks, so that the banks cannot afford to interfere with their present issue any more than the government can, both relying upon the system for a bond market. I frankly admit that I have no plan to suggest that will cure all these defects or overcome all these difficulties, and I have seen no plan suggested that in my judgment will. But because we cannot see our way to accomplish all we might desire, is no reason why we should not endeavor to improve conditions by doing what we safely can along the lines of reform. If we can take one step safely, we may leave to the future the development of better ideas, after the public has become accustomed to the working of the first step, if it should prove to work satisfactorily.

Three methods have been recently brought before the public in a prominent way:

First.—A large central bank of issue to do business exclusively with the other banks and to supply them with its bank note currency against collaterals deposited with it, has been suggested. This would interfere with existing relations between the banks and their reserve agents, and thus revolutionize our present system. It is generally admitted that however desirable such a bank would be, had it started with and developed, as a part of our system, it is now impracticable and unattainable.

Second.—The most widely advocated and apparently the most popular suggestion is, to provide what has become known as an emergency currency. This, it is claimed by its advocates, would be put out when money becomes scarce and high rates prevail. It is believed that it could be issued in anticipation of a pending emergency and that by its use instead of paying out legal reserve money, the banks could tide themselves over a period of stringency; that a tax upon it sufficiently high to preclude profit, would cause the banks that issue it to retire it as soon as the money market readjusts itself and conditions become normal. There would be nothing automatically elastic

in such an emergency currency. It could only be retired by depositing with the government legal tender money to redeem it, when its redemption by the holders of it, is demanded. It is frequently spoken of as being "called in" or "driven in" by the high tax, but this is manifestly erroneous language. After a bank has issued it and it has become the property of another, the bank can neither "call" nor "drive" it in for redemption. The demand for the redemption of any currency is the voluntary act of the owner of it when they have no further use for it. It may circulate in far distant parts of the country, or it may be locked up by its owner in a safe deposit vault on the premises of the bank that issued it, but in either case it is beyond the reach of the bank that wants to redeem it. All the bank can do when it wants to stop its liability for the high tax upon it, is to furnish the government with legal tender money to redeem it when its redemption is wanted by its owner.

The bill recently introduced by the banking committee of Congress, permits the banks to issue notes to the extent of 25 per cent. of their capital, subject to a tax of 3 per cent. and an additional 12½ per cent., subject to a tax of 5 per cent. The currency commission recommended taxes of 2½ and 5 per cent. respectively, for the purpose of providing a guarantee fund for the safety of the notes covering the cost of printing them, and providing proper and ample facilities for their redemption. The additional ½ per cent. added by the Banking Committee would make it necessary for banks in the central reserve cities to obtain 6 per cent. on loans, before they could justify themselves in the use of such notes from the standpoint of a legitimate profit. Conservative and self-respecting management would not, in my judgment, avail itself of such a privilege except under the strain of an anticipated emergency. I am, therefore, forced to regard the measure as proposing an emergency currency. But will a purely emergency currency satisfactorily meet financial emergencies when they arise? Where has such a currency ever been tried? Where has such an unfortunate name ever before been given to any currency expected to circulate among the public? The advocates of it point to the German system as an example of its working, but nothing could be more erroneous. True, the Imperial Bank of Germany pays the

government 5 per cent. on the currency it issues in excess of what is known as its contingent circulation. But its contingent circulation is fixed at $112,500,000 in excess of its metallic reserve, which is in the neighborhood of $200,000,000. It is permitted to issue its notes to the full amount of its metallic reserve, plus $112,500,000, subject to no tax at all. Its metallic reserve is not held exclusively against its notes issued, but serves as its reserve against its entire liability in shape of deposits, etc. The Imperial Bank has, therefore, a profitable note-issuing privilege of fully $250,000,000 upon which there is no tax, and if it has to—as it sometimes does—exceed the amount thus fixed by law, it pays the government 5 per cent. on the excess. Similarly in Canada if the banks there exceed the privilege granted them by law they are fined in round amounts proportionate to the excess. But this highly taxed circulation in Germany is no emergency currency. It is not a new kind of currency, which the banks ask the public to take in anticipation of an emergency, but simply an additional amount of the same kind of notes issued because of the demand existing for them. There is no line of demarcation in the public mind between the $250,000,000 which is free from taxation and the excess on which the bank pays 5 per cent. The bank does not, as a rule, draw attention to its over issue, even to the extent of raising its rate of discount. Just think of the difference between this system and the emergency currency which it is thought of attaching to our system. Our six thousand National Banks, or any of them, whenever they become strained in their resources will have to ask the public, accustomed to a government secured circulation, to take from them a new kind of currency, in the shape of their credit notes, which are never issued except in anticipation of trouble, and on which they are by law required to pay a tax, sufficiently onerous to prevent their issuing them, except under such an anticipation. Will the public take them? Dare the banks ask them to? I think not. The contrast between our present government secured currency, good at all times and under all conditions, and such an emergency issue offered by the banks under fear or stress of circumstances, would be too obvious. The very admission of impending trouble, implied by their circulation, would give

rise to public discussion of the fact and would be likely to create distrust in the banks issuing them as well as in their obligations.

For these reasons I don't regard a purely emergency currency as practical. The public must become accustomed to whatever issue is adopted under normal conditions, so that no alarm will be created when under enhanced demand for it, it increases in volume to meet such demand.

I trust, and would earnestly urge, that the bill now before Congress may be amended, so as to conform to the currency commission's recommendations as to taxation, as it does in all other respects.

The third recommendation is that made by the Currency Commission of the American Bankers' Association, and with a brief description of it I will close these rambling remarks.

The Commission realized that on the one hand the doctrinaires stand ready to tear to shreds any plan that does not conform to recognized economic principles, and on the other, the politicians are sure to reject anything not in accordance with popular opinion and sentiment. At the outset, therefore, it was decided that their suggestions should conform as closely to correct principles as practical politics and popular sentiment would permit. It was recognized and frankly admitted, that any plan adopted must be more or less experimental. They therefore decided that existing conditions should be interfered with as little as possible and nothing of a radical nature recommended. They deemed it desirable under existing conditions not to go too far in recommending that national banks be permitted to issue their credit notes, but that such issue, combined with their present bond secured issue, should be confined to the present limitation, that is, to an amount equal to their capital stock. On referring to the Comptroller's report they found that although the banks have now the privilege of issuing their notes secured by government bonds to an amount equal to their capital, they have only availed themselves of it to the extent of 62½ per cent. Thus they saw the possibility, without increasing the present privilege of the banks, of adapting the unused 37½ per cent of their present privilege to the issuance of a currency on a new basis. It was deemed necessary in order to maintain

the market price for government bonds, which has been almost entirely dependent upon the demand for them by national banks, and to prevent the displacement to any appreciable extent of the present secured currency by the proposed credit currency, that the amount of the latter to be issued, should bear a certain proportion to the amount of the former outstanding. They found that by allowing the banks to issue credit notes bearing the more or less moderate tax of $2\frac{1}{2}$ per cent. to the extent of 40 per cent of their bond secured circulation, but not exceeding 25 per cent, of their capital, and a further amount of emergency or highly taxed notes (the tax being 5 per cent.) to the extent of $12\frac{1}{2}$ per cent. of their capital, the banks could in addition to their present $62\frac{1}{2}$ per cent of secured notes, issue 25 per cent. of credit notes at $2\frac{1}{2}$ per cent., and $12\frac{1}{2}$ per cent. emergency notes at 5 per cent. without adding to their present privilege as to total issue.

The next recommendation in the Commission's plan is that the same reserves must be carried against credit notes as are now required against deposits. The argument that settled this principle in the minds of the Commission, causing them to vote for it unanimously, was that when a bank pays a check in its own notes, it only gives out a demand obligation similar in its nature to the deposit obligation which has been cancelled by the payment of the check. If it is not required to maintain a cash reserve against the new liability thus created, it has increased the proportion of its legal reserve to its remaining deposits, by the amount of it, and is thus furnished with the reserve basis of expanding its loans to the extent of four times that amount, which would mean inflation pure and simple. Every check paid by a bank in its own credit notes, forms such a transaction, and results to the amount of it in the same effect on its legal reserves.

The next provision is that the taxes provided shall be paid into the United States Treasury, to constitute a Guaranty Fund for the redemption of the notes of failed banks, and to pay expenses of printing and the cost of redemption. In order that the Guaranty Fund may be ample from the beginning, any bank making application to take out credit notes for issue, shall deposit with the Treasurer of the United States in gold

an amount equal to 5 percent thereof. The unused portion of this initial payment shall be an asset of the contributing banks respectively and shall be refunded from time to time, when this may be done without reducing the Guaranty Fund below an amount equal to 5 per cent. of the credit notes taken out.

That the Banking Committee of Congress should have seen fit to exceed the rate of taxation recommended by the Currency Commission, I personally very much regret, for in my judgment it will nullify their measure. With the 5 per cent. Guaranty Fund provided at the start, my personal judgment is that a 1 per cent. tax to maintain it, is sufficient, the banks paying in addition all the expenses of printing and the cost of redemption. The Commission went to the extreme in its recommendation as to taxation, to meet the unaccountable popular demand for it. In this connection I quote from a recent pamphlet on the currency question by Victor Morawetz, of New York. He says: "In fixing the rate of taxation to be imposed upon the proposed circulation, the following considerations should be borne in mind: Bank credits and bank notes are merely part of the machinery for transacting business, and this machinery should not be made unnecessarily expensive to the people by means of taxes or other artificial means. A tax upon bank credits or currency must ultimately fall upon borrowers and operate as a tax upon business generally. The only reasons for taxing bank notes or other bank credits are either (*a*) to obtain revenue for the government, or (*b*) to prevent the issue of more notes than would be safe, *i. e.*, more than will certainly at all times be redeemed in gold. The first reason is not a good one, because the government is not in need of revenue, and it is not desirable to tax business generally unless this is essential."

There only remains for consideration the facilities to be provided for the prompt redemption of this credit currency. This involves the crucial principle of the plan on which its ultimate success or failure depends. The Commission in its report enunciates this principle in the following language: "Active daily redemption of credit currency is the proper and only means of making it elastic, preventing redundancy and automatically adjusting its volume to the actual requirements of commerce. All banks issuing such notes should be required

to maintain adequate facilities for their prompt redemption in cities conveniently located in all sections of the country, so that all notes issued, however widely they circulate, can at no time get beyond a reasonable distance from a redemption city."

This feature of the suggested reform I have already fully explained. My own opinion is that if ample facilities are provided and the tax is reduced so that the banks will actively compete for the circulation, because of the profit there is in it, active daily redemption will take place here, as it does everywhere in the world where a low tax or a free bank circulation is permitted, and that is in nearly every country of any financial power in the world, except our own.

You will observe that this plan proposes that the banks shall have the privilege of issuing their notes to a limited extent, on terms sufficiently profitable to induce them to take advantage of the privilege under normal conditions. In this way, the public will become accustomed to them, and, as in the German plan, there will be no alarm created when at certain seasons of the year, they exercise their additional privilege of issuing their notes without profit subject to the higher taxation.

In order to afford some elasticity to our present bond secured currency the Commission has recommended the removal of the present limit of $3,000,000 per month on its retirement. We believe, however, that with the rapidly increasing business of the banks, the present volume of the government secured currency can, and will be, practically maintained the year round. We further believe that our recommendations in regard to the provision for ample redemption facilities will make the proposed credit currency thoroughly elastic, so that it will not be in existence when it is not actually needed in commerce. We ask the doctrinaires to face existing conditions as we have done. To politicians, we say that in meeting existing conditions we have had to abandon some economic ideals of a scientifically correct currency. And to all we say we believe our recommendations will form a safe and conservative step in the right direction. The need for legislation on the subject is urgent, delay is dangerous. Something must ere long be done. We would, therefore, ask commercial and banking interests to unite in endorsing and pushing forward our recommendations until they are enacted into law.

END OF TITLE